

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 COME-00 EB-08 XMB-02 AID-05 FEA-01

EA-10 ERDA-05 OES-07 CIAE-00 INR-07 NSAE-00 /060 W

-----069386 180148Z /65

R 171541Z AUG 77

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 7576

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY MEXICO

AMEMBASSY PANAMA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

LIMITED OFFICIAL USE TEGUCIGALPA 3858

E.O. 11652: N/A

TAGS: BEXP, ENRG, HO , XK

SUBJECT: GEOTHERMAL ENERGY SALES SEMINAR IN CENTRAL AMERICA AND MEXICO

REF: (A) STATE 111513, (B) TEGUCIGALPA 3615

1. EMBASSY DISCUSSIONS WITH REPRESENTATIVES OF U.S. FIRMS INTERESTED IN CENTRAL AMERICA MARKET FOR GEOTHERMAL POWER ENGINEERING SERVICES HAVE REVEALED HANDICAPS TO ORDERLY DEVELOPMENT OF THIS POWER POTENTIAL AND TO CAPTURING A PROPORTIONAL SHARE OF THIS MARKET BY U.S. FIRMS. THESE DIFFICULTIES ARE RELATED TO THE NEWNESS OF THIS FIELD OF ENERGY DEVELOPMENT, HIGH MOBILIZATION COSTS AND SHORT DURATION OF INITIAL CONTRACTS, AND THE COMPETITIVE ADVANTAGE OF JAPANESE, ITALIAN AND OTHER FIRMS AS A RESULT OF SUBSIDIES AND OTHER SUPPORT EXTENDED BY THEIR GOVERNMENTS. THE EMBASSY PROPOSES CONSIDERATION BY WASHINGTON AGENCIES OF MEASURES WHICH THEY CAN ADOPT TO SUPPORT EFFORTS OF U.S. FIRMS TO SECURE AN APPROPRIATE SHARE OF THIS MARKET IN CENTRAL AMERICA. THIS MARKET ESTIMATED PRESENTLY AT \$10
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MILLION A YEAR AND TO RISE TO \$100 MILLION A YEAR IN THE EARLY 1980'S

AS A FIRST STEP THE EMBASSY URGES CONSIDERATION OF AVAILABILITY OF EXIMBANK FINANCING ON THE FAVORABLE TERMS FOR U.S. FIRMS BIDDING ON ENGINEERING, DRILLING AND EQUIPMENT SALES CONTRACTS. THIS STEP WOULD HAVE ITS MOST SALUTARY IMPACT IF ADOPTED PRIOR TO THE SUBJECT SEMINARS SCHEDULED FOR EARLY NOVEMBER IN MEXICO

CITY, GUATEMALA AND SAN JOSE. THIS TIMING IS ESPECIALLY IMPOR-
TANT IN LIGHT OF JAPANESE GEOTHERMAL PROMOTIONAL EVENT SCHEDULED
IN SAN JOSE IN MID-OCTOBER AND VERY FAVORABLE CREDITS OFFERED
BY JAPANESE FIRMS WITH AID OF THEIR GOVERNMENT.

2. THE CONSIDERABLE POTENTIAL FOR GEOTHERMAL ENERGY DEVELOPMENT
IN CENTRAL AMERICA HAS BEEN CITED (MANY THOUSANDS OF MEGAWATTS)
IN A DECEMBER 1976 DRAFT PAPER PREPARED BY THE DIVISION OF
GEOTHERMAL ENERGY OF ERDA. THE INSTALLED CAPACITY OF GEOTHERMAL
ELECTRIC PLANTS IN THE AREA ALREADY EXCEEDS 200 MEGAWATTS. THIS
CAPACITY HAS BEEN DEVELOPED DESPITE SIGNIFICANT SHORTCOMINGS OF
FOREIGN GEOLOGICAL, ENGINEERING AND DRILLING FIRMS ENGAGED.
THIS RELAIANCE ON NON-U.S. FIRMS ESPECIALLY IN DRILLING
OPERATIONS HAS CAUSED COMPLETION DELAYS, HIGH COSTS, AND PREVENTED
DEEP DRILLING. ALTHOUGH STATE OF U.S. GEOTHERMAL SCIENCE AND
TECHNOLOGY IS CONSIDERED MORE ADVANCED, AND U.S. DRILLING
COMPANIES HAVE DEMONSTRATED GREATEST EFFICIENCY AND ECONOMIES,
U.S. FIRMS HAVE FOUND IT DIFFICULT TO PENETRATE THIS MARKET.
INITIAL CONTRACTS FOR GEOLOGICAL STUDIES AND EXPLORATORY DRILLING
HAVE BEEN SMALL AND COSTLY TO MOBILIZE FOR IN ABSENCE OF
FOLLOW-ON CONTRACTS IN THE OTHER FIVE COUNTRIES OF THE AREA.
HIGH INITIAL COSTS OF U.S. EQUIPMENT ALSO HAS PREVENTED MUCH
PROGRESS IN SELLING RESERVOIR DEVELOPMENT SERVICES AND POWER
PLANTS, DESPITE THEIR LOWER LIFE-CYCLE COSTS AND GREATER RELI-
ABILITY.

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3. U.S. FIRMS ALSO ARE AT A DISADVANTAGE IN COMPETING WITH
FOREIGN FIRMS BECAUSE THE LATTER, WITH SUPPORT OF THEIR GOVERN-
MENTS, OFFER SUBSIDIZED AGREEMENTS, NON-COMMERCIAL CREDITS AND
TRAINING. SUBSIDIZED INITIAL CONTRACTS ARE OFFERED IN APPARENT
EFFORTS TO ENHANCE PROSPECTS FOR SECURING LARGER AND MORE LUCRA-
TIVE DEVELOPMENT CONTRACTS. ITALIAN AND JAPANESE GOVERNMENT
REPORTEDLY WORK IN CLOSE PARTNERSHIP WITH THEIR BIDDERS. EXTENDED
TERMS, LOW-INTEREST AND GRACE PERIODS THEY OFFER INITIALLY WCE BETTER
THAN USUAL EXIMBANK TERMS. AS REPORTED REF B, KAWASAKI, MITSU-
BISHI AND OTHER JAPANESE FIRMS HAVE OFFERED TOTAL FINANCING FOR

GEOTHERMAL PROJECTS (FROM GEOLOGICAL SURVEYS THROUGH PLANT
SUPPLY AND CONSTRUCTION WITH 20-YEAR, 7 TO 8 PERCENT CREDITS
WITH 4-YEAR GRACE. KAWASAKI TRADING CO. OFFERED \$40 MILLION ON
THESE TERMS TO NICARAGUA. IN CONNECTION WITH THESE OFFERS
JAPANESE FIRMS IN MID-1977 INVITED REPRESENTATIVES OF ALL
CENTRAL AMERICAN COUNTRIES FOR GEOTHERMAL SEMINAR. AS REPORTED
BY EMBASSY SAN JOSE (CABLE 3339) JAPANESE INSTITUTE OF TECHNOLOGY
TRANSFER ALSO PLANS SALES SEMINAR IN COSTA RICA OCTOBER 17-19.
SPECIAL INDUCEMENTS OFFERED BY ELECTRO-CONSULT (ITALY) AND
STRONG PRESSURE VIA ITALIAN EMBASSY IN TEGUCIGALPA NEARLY UPSET
SURVEY AWARD TO GEONOMICS (BERKELEY) AND RESULTED IN ADVERSE

LAST-MINUTE CHANGES IN CONTRACT (SEE TEGUCIGALPA A-31).

4. ERDA DRAFT PAPER CITED PARA TWO DESCRIBES MAJOR OPPORTUNITIES WHICH EXIST FOR U.S. TO AID DEVELOPING COUNTRIES IN UTILIZING GEOTHERMAL RESOURCES, AND AT SAME TIME TO INCREASE U.S. EXPORTS AND HELP DEVELOP FLEDGLING U.S. GEOTHERMAL INDUSTRY. IT POINTS OUT THAT U.S. ASSISTANCE TO AMERICAN FIRMS IN DEVELOPING A COOPERATIVE, AGGRESSIVE PROGRAM TO DEMONSTRATE AND SELL U.S. TECHNOLOGY WOULD BE MUTUALLY BENEFICIAL. SUCH A PROGRAM ALSO WOULD STRENGTHEN "NEW-TO-MARKET" FIRMS WHICH IS HIGH PRIORITY GOAL IN U.S. EXPORT PROMOTION AND OF HIGH CONGRESSIONAL INTEREST. PERHAPS RECENT LEGISLATION APPROVING A DEPARTMENT OF ENERGY WILL PRESENT AN OPPORTUNITY TO ESTABLISH A TASK FORCE APPROACH INVOLVING STATE, COMMERCE, ENERGY, AID AND EXIMBANK TO FORMULATE A PROGRAM

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IN THIS CRITICAL AREA OF ENERGY DEVELOPMENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ENERGY, SEMINARS
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TEGUCI03858
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770297-0914
Format: TEL
From: TEGUCIGALPA
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770851/aaaabres.tel
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Litigation Codes:
Litigation History:
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Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 STATE 111513, 77 TEGUCIGALPA 3615
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1572467
Secure: OPEN
Status: NATIVE
Subject: GEOTHERMAL ENERGY SALES SEMINAR IN CENTRAL AMERICA AND MEXICO
TAGS: BEXP, ENRG, HO, XK
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/31106b59-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009